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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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OPEC Has A New Deal . . .

It is a little ironic that as members of the Organization of Petroleum Exporting Countries (OPEC) were alerting world markets to the likelihood of lower oil prices at their meeting in Geneva last week, spot prices for their crudes had been rallying from their summer lows. In the last two months, a few premium grades actually posted their highest prices this year. Yet OPEC is not merely posturing; it is coming to grips with some of the fundamental challenges and changes in oil markets. After four years of trying and failing to maintain prices by reducing supplies—at first by exhorting members to restrain output and then by setting output quotas—OPEC has officially abandoned these price-supporting tactics. The cartel is attempting to recover some of its losses in market share—thereby reestablishing its control over prices—by raising crude oil production and by negotiating prices for this oil on a "netback" basis. This method allows prices for crude to be determined by market conditions.

In recent years OPEC has lost its preeminence in world oil markets to outside producers. Its share of world supplies dropped from 49 percent in 1981, to just over one-third today. Increased output from the North Sea producers, Mexico, the Soviet Union, Australia and China has offset OPEC's cutbacks. At the same time, total world demand for crude oil dropped sharply in response to the second round of price hikes beginning in 1979. Oil consumption in the countries belonging to the Organization for Economic Cooperation and Development (OECD) has fallen 17 percent from an average of 41 million barrels a day in 1979, to an estimated 34 million barrels a day this year.

. . . But Consumers Are Not Buying

After abandoning attempts to support prices by restricting output, OPEC, in October, raised output to an average of 17.3 million barrels a day. This is up from the now defunct 16 million barrels a day quota and well above the average of 15.4 million barrels a day registered in the first half of 1985. That prices have not slipped further is attributable to seasonal demand, a limited rebuilding of inventories and the weakness of the U.S. dollar. Indeed the latter factor has allowed an average 12 percent decline in local currency costs paid by European and Japanese importers since September.

While it may appear that the conjunction of lower prices and a weakening U.S. dollar—the standard denomination of most oil sales—would trigger stronger demand, with the few exceptions of Japan, West Germany and the United States, most oil importing countries lack the vigor and stimulative government policies such a development normally requires. For the developing economies in Latin America and Africa, depressed prices for their exports of primary commodities and restrictive external debt conditions will curb any inclination to step up oil imports. World demand for crude oil may not pick up substantially until prices fall further.

For The Nation's Retailers . . .

Prospects for lower oil prices represent an unexpected Christmas gift to American consumers. Although lower prices may not materialize until after the Christmas shopping season is over, anticipation of these savings may lift consumers' spirits and enthusiasm to spend. Even now, just about every major retailer across the country reports that the Holiday selling season has gotten off to a strong start. Further, the Commerce Department's preliminary estimate of November's retail sales seems to confirm that the nation's cash registers indeed are ringing up a merry tune. Boosted by heavy buying during the Thanksgiving weekend, retail sales, excluding automobile purchases, rose a seasonally adjusted 1.2 percent compared with October—the largest rise in eight months.

Retailers are rejoicing over the early turnout. For many merchants, Christmas sales can add up to almost half of their annual volume and account for two-thirds of their profits. Strong sales are particularly important today to provide a good launching pad for 1986 and to keep the economy out of recession. One possible constraint might be the fact that the season is shorter. Because Thanksgiving, which marks the beginning of the traditional Holiday shopping season, was extremely late this

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year, there are only 26 days between Thanksgiving and Christmas compared with 32 days last year. Therefore, merchants need higher sales each day just to match last year's seasonal performance. On the other hand, retailers may find a silver lining in the shorter Holiday selling period since consumers now have less time for extensive browsing and bargain hunting to take care of their shopping lists.

. . . It's A Season To Be Jolly

Retailers should be encouraged by the results of a recent survey conducted by the Conference Board. It showed that households plan to spend, on average, $315 on Christmas presents this year, about five percent more than in 1984. With nearly 87 million households nationwide, this translates into more than $27 billion of spending on gifts alone.

Inventories are another bright spot for retailers. Last year, merchants stocked up heavily in anticipation of strong Holiday buying. Sales, however, fell short of expectations and retailers had to resort to substantial markdowns early in the Holiday season to clear out surplus merchandise. Even those merchants who gauged the market correctly and kept their inventories in line with sales were forced to slash their prices to meet the lower tags of overstocked competitors. These widespread markdowns cut deeply into their profits.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/11/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	185.105	+ 2.646	+17.955
Loans to Depository Inst.	.681	– .892	– 2.620
Float	1.566	+ .322	– .267
Total Reserve Bank Credit	201.499	+ 2.172	+17.818
Treasury Deposits with Federal Reserve Banks	2.565	+ .307	– .766
Currency in Circulation	194.607	+ .862	+13.798
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	125.661	– 1.513	+ 6.811
	12/4/85		
Member Bank Reserves:			
Total Reserves Held	45.232	+ .621	+ 6.268
Excess (Deficiency)	1.063	+ .162	+ .149
Net Borrowed Reserves	1.362	+ 1.117	+ 1.514
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (12/2/85)	626.1	+ 8.3‡	+ 11.7‡
M2 (November '85)	2,547.3	+ 5.3	+ 8.6
M3 (November '85)	3,190.6	+ 6.4	+ 7.8
Domestic Nonfinancial Debt (3rd Q'85)	6,523.1	+ 11.7	+ 13.7

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/13/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.95%	6.94%	6.98%
* Federal Agencies	7.49	7.60	7.76
* Municipal Notes—High Grade (46% Taxable Equivalent)	10.00	10.19	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.65	7.65	7.70

‡Finance Company Paper—Prime

5- 14 days	7.70%
15- 29 days	7.70
30- 59 days	7.70
60- 89 days	7.60
90-179 days	7.50
180-239 days	7.38
240-270 days	7.38

‡* Bankers' Acceptances

Jan.	7.75%
Feb.	7.70
Mar.	7.60
Apr.	7.50
May	7.45
Jun.	7.40

‡Industrial Paper—Prime

30- 89 days	7.68%
90-120 days	7.60

†Federal Funds Effective Rate 7.85%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,689	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	4.3	1.9	1.6
Change in Consumer Prices*	Oct '85	3.6%	2.4%	3.6%
Change in Producer Prices*	Nov '85n	9.6%	10.8%	3.6%
Civilian Employment (Thousands of Persons)†	Nov '85	107,927	107,867	105,932
Unemployment as % of Civilian Labor Force†	Nov '85	7.0%	7.1%	7.1%
Personal Income*	Oct '85	$ 3,221	$ 3,207	$ 3,079
Leading Indicators Composite Index (1967=100)†	Oct '85	171.1	170.6	164.2
Industrial Production Index (1977=100) †	Nov '85n	125.1	124.6r	123.4
Net Change in Consumer Installment Credit †	Oct '85n	$ 6.63	$ 11.53r	$ 5.63
U.S. Merchandise Trade Balance †	Oct '85	–$ 11.45	–$ 15.55	–$ 9.65
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Oct '85	1,760	1,589	1,564
New Construction Expenditures*	Oct '85	$ 347.8	$ 346.1	$ 318.2
Total Business Inventories †	Oct '85n	$ 582.0	$ 578.9r	$ 568.8
Total Business Sales †	Oct '85n	$ 426.3	$ 429.0r	$ 414.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

This year, however, inventories are much leaner and most stores so far have avoided widespread price-cutting. In turn, this suggests that Christmas 1985 will be more profitable for retailers than last year. Although shoppers still can find special deals, these bargains are offered primarily on promotional items and have been carefully planned and priced to provide good-sized profits even after discounts.

Notwithstanding the absence of markdowns, consumers are not paying much more for their Holiday presents than they did last year. In the last 12 months, prices of consumer goods rose only 1.8 percent, the smallest increase in almost 20 years. In fact, prices of a number of products, such as some videocassette recorders and compact disc players, which are on the list of this year's hot-selling items, are lower today than a year ago. Other best-selling items vary from apparel, shoes and fashion accessories to jewelry, household goods, electronic gadgetry and toys. Merchandise with "Made in the U.S.A." labels are also selling well.

Consumers are clearly carrying heavier loads than just their Holiday packages at this time. The future of the current business expansion is also in their hands. Since personal consumption expenditures bulk so large in the GNP, accounting for about two-thirds of the overall economy, any retrenchment in consumer spending now could put a damper on business in 1986.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/27/85)	157,642	+ 282	– 1,255
New York City (12/4/85)	33,766	+ 308	– 605
Commercial Paper (12/4/85)	293,397	+ 3,206	+56,417

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/27/85)	254,966	+ 690	+ 5,226
New York City (12/4/85)	60,454	+ 1,218	– 3,579

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/27/85)	706,779	+ 239	+ 63,682
New York City (12/4/85)	158,234	+ 1,176	+ 11,236

Financial Markets

	Friday 12/13/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.19%	– .29	– 1.35
180-Day Bills†	7.31	– .38	– 1.55
Longest Bills†	7.46	– .42	– 1.95
Recent Issues:			
8 1/2s 11/30/87	7.97	– .49	
9 3/8s 9/30/89	8.48	– .52	
9 1/2s 11/15/95	9.20	– .43	
9 7/8s 11/15/15	9.53	– .36	
Municipals:			
Bond Buyer–20 Bond Index* (12/12/85)	8.42%	– .12	– 1.58
Blue List Total ($ Million)	$2,340	+$ 2	– $290
30-Day Visible Supply ($ Million)	$3,130	–$2,230	+ $976
Total	$5,470	–$2,228	+ $686
Corporates:			
Moody's Aa Composite (12/12/85)	10.68%	– .24	– 1.91
30-Day Visible Supply ($ Million)	$ 755	–$ 825	– $955
Stocks:			
Dow-Jones Averages:			
Industrials	1,535.21	+ 58.03	+ 359.30
Transportation	722.61	+ 29.02	+ 187.62
Utilities	168.80	+ 3.23	+ 24.21
65 Stocks	613.91	+ 21.95	+ 140.31
Standard and Poor's 500 Stocks	209.94	+ 6.95	+ 47.25
N.Y.S.E. Composite Index	120.83	+ 3.84	+ 26.91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	165,484	+30,452	+ 82,220

* 46% Taxable equivalent 15.59%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/13/85	Week Ago
Overnight	7.81%	8.00%
1 month	8.00	8.19
3 month	7.88	8.13
6 month	7.88	8.13
1 year	8.00	8.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.09%	9.50%
Long Term (7 to 15 yrs.)	9.66	10.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/13/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01946	51.3800
Canada	.7196	1.3896
Denmark	.1096	9.1200
France	.1300	7.6950
Germany	.3976	2.5150
Italy	.0005833	1714.50
Japan	.004944	202.25
Mexico	.002153	464.50
Netherlands	.3530	2.8328
Switzerland	.4757	2.1023
U.K.	1.4420	.6935

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With this kind of momentum, our footsteps will soon be heard—side by side.

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